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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

November 13, 1970

SUPPLEMENTAL NOTES

The Domestic Economy

Gross national product in the third quarter was at an annual rate of \$985.5 billion, up slightly from the Commerce Department's preliminary estimate shown in the Greenbook. Real output rose at an annual rate of 1.4 per cent; the implicit deflator is now indicated to have risen at an annual rate of 4.6 per cent, instead of 4.4 per cent estimated previously. The major differences in the revised estimates (shown in the following table) and the preliminary estimates are in nonfarm inventory investment, now shown at a \$5.0 billion annual rate instead of \$3.5 billion, and net exports, about unchanged from second quarter instead of up \$.5 billion.

The Commerce preliminary estimate of corporate profits for the third quarter is \$85 billion, up \$3 billion from the second quarter. With the corporate Federal tax liability reflecting this figure, Federal deficit on NIA basis is estimated at \$11.2 billion for the third quarter.

GROSS NATIONAL PRODUCT AND RELATED ITEMS

| | 1969 | 1970 | | | 1969 | 1970 | | |
|--|-------|---------------------------------------|-------|-------------------|-------------------------------------|---------------------|-------|------|
| | | I | II | III | | I | II | III |
| -----Billions of dollars----- | | | | | | | | |
| | | -Seasonally Adjusted- Annual Rates | | | --Change from Preceding-- period | | | |
| Gross National Product | 931.4 | 959.5 | 971.1 | 985.5 | 66.4 | 7.8 | 11.6 | 14.4 |
| Inventory change | 8.5 | 1.6 | 3.1 | 5.5 | 0.9 | -5.6 | 1.5 | 2.4 |
| Final purchases | 922.9 | 957.9 | 968.1 | 980.0 | 65.5 | 13.4 | 10.2 | 11.9 |
| Private | 710.7 | 738.3 | 749.7 | 759.0 | 53.5 | 10.1 | 11.4 | 9.3 |
| Excluding net exports | 708.8 | 734.8 | 745.6 | 754.8 | 54.1 | 9.2 | 10.8 | 9.2 |
| Net exports | 1.9 | 3.5 | 4.1 | 4.2 | -0.6 | 0.9 | 0.6 | 0.1 |
| Government | 212.2 | 219.6 | 218.4 | 221.0 | 12.0 | 3.3 | -1.2 | 2.6 |
| GNP in constant (1958) dollars | 727.1 | 723.8 | 724.9 | 727.4 | 19.9 | -5.4 | 1.1 | 2.5 |
| Final purchases | 719.9 | 722.4 | 721.9 | 722.8 | 19.6 | -0.5 | -0.5 | 0.9 |
| Private | 572.1 | 577.4 | 580.6 | 582.2 | 20.1 | 1.1 | 3.3 | 1.6 |
| | | | | | Per Cent | -Per Cent Per Year- | | |
| Gross National Product | 931.4 | 959.5 | 971.1 | 985.5 | 7.7 | 3.3 | 4.8 | 6.1 |
| Final purchases | 922.9 | 957.9 | 968.1 | 980.0 | 7.6 | 5.7 | 4.3 | 4.9 |
| Private | 710.7 | 738.3 | 749.7 | 759.0 | 8.1 | 5.5 | 6.2 | 5.0 |
| Excluding net exports | 708.8 | 734.8 | 745.6 | 754.8 | 8.3 | 5.1 | 5.9 | 4.9 |
| Personal consumption expenditures | 577.5 | 603.1 | 614.4 | 622.1 | 7.8 | 7.1 | 7.5 | 5.0 |
| Durable goods | 90.0 | 89.1 | 91.9 | 91.2 | 7.1 | -7.5 | 12.6 | -3.0 |
| Nondurable goods | 245.8 | 258.8 | 262.6 | 265.8 | 6.8 | 10.8 | 5.9 | 4.9 |
| Services | 241.6 | 255.2 | 259.9 | 265.1 | 9.0 | 8.6 | 7.4 | 8.0 |
| Gross private domestic investment | 139.8 | 133.2 | 134.3 | 138.3 | 10.5 | -20.0 | 3.3 | 11.9 |
| Residential construction | 32.0 | 29.1 | 28.4 | 29.2 | 5.6 | -17.1 | -9.6 | 11.3 |
| Business fixed investment | 99.3 | 102.6 | 102.8 | 103.6 | 12.0 | 0.0 | 0.8 | 3.1 |
| Change in business inventories | 8.5 | 1.6 | 3.1 | 5.5 | -- | -- | -- | -- |
| Nonfarm | 8.0 | 0.9 | 2.6 | 5.0 | -- | -- | -- | -- |
| Net exports of goods and services | 1.9 | 3.5 | 4.1 | 4.2 | -- | -- | -- | -- |
| Gov't. purchases of goods & services | 212.2 | 219.6 | 218.4 | 221.0 | 6.0 | 6.1 | -2.2 | 4.8 |
| Federal | 101.3 | 102.3 | 99.7 | 98.6 | 1.8 | 0.8 | -10.2 | -4.4 |
| Defense | 78.8 | 79.3 | 76.8 | 75.8 | 1.0 | 2.5 | -12.6 | -5.2 |
| Other | 22.6 | 23.0 | 22.9 | 22.9 | 5.1 | -5.2 | -1.7 | 0.0 |
| State & local | 110.8 | 117.4 | 118.7 | 122.4 | 10.0 | 11.2 | 4.4 | 12.5 |
| Gross national product in constant (1958) dollars | 727.1 | 723.8 | 724.9 | 727.4 | 2.8 | -3.0 ^{1/} | 0.6 | 1.4 |
| GNP implicit deflator (1958 = 100) | 128.1 | 132.6 | 134.0 | 135.5 | 4.7 | 6.4 ^{1/} | 4.3 | 4.6 |
| Personal income | 748.9 | 782.3 | 801.3 | 807.2 | 8.7 | 6.1 | 9.7 | 2.9 |
| Wages and salaries | 509.0 | 531.9 | 539.5 | 543.8 | 9.5 | 5.0 | 5.7 | 3.2 |
| Disposable income | 631.6 | 665.3 | 683.6 | 693.0 | 6.8 | 9.0 | 11.0 | 5.5 |
| Personal saving | 37.6 | 44.8 | 51.5 | 52.7 | -- | -- | -- | -- |
| Saving rate (per cent) | 6.0 | 6.7 | 7.5 | 7.6 | -- | -- | -- | -- |
| Corporate profits before tax | 91.2 | 82.6 | 82.0 | 85.0 ^p | 2.8 | -26.7 | -2.9 | 14.6 |
| Federal government receipts and expenditures (N.I.A. basis) | | | | | | | | |
| Receipts | 200.6 | 195.9 | 196.7 | 195.5 | 14.4 | -12.1 | 1.6 | -2.4 |
| Expenditures | 191.3 | 197.7 | 200.9 | 206.7 | 5.3 | 3.7 | 26.7 | 11.5 |
| Surplus or deficit (-) | 9.3 | -1.7 | -14.2 | -11.2 | -- | -- | -- | -- |

^{1/} Excluding effects of Federal pay increase, 5.5 per cent per year.

Retail sales. Retail sales in October declined 1.4 per cent from September, according to the Census advance release. Most of the weakness was attributable to an 11.8 per cent decrease in sales at automotive stores, largely reflecting the strike at GM. Excluding the automotive component, sales increased 1.0 per cent. Sales of furniture and appliances were 1.4 per cent higher for the first significant improvement in six months. Almost all major categories of nondurable goods reported larger sales and the group as a whole was up 1 per cent.

SALES OF RETAIL STORES

| | July | Aug. | Sept. | Oct. | July | Aug. | Sept. | Oct. |
|-----------------------|-------------------------|------|-------|------|---|------|-------|-------|
| | -----(\$ billions)----- | | | | Per cent change from ----previous month----- | | | |
| All stores | 30.7 | 30.8 | 30.8 | 30.4 | .7 | .2 | .1 | -1.4 |
| Total, excluding auto | 25.2 | 25.3 | 25.2 | 25.4 | .6 | .3 | -.4 | 1.0 |
| Durable goods | 9.5 | 9.5 | 9.5 | 8.9 | .8 | .2 | .5 | -6.6 |
| Auto | 5.5 | 5.5 | 5.6 | 5.0 | 1.1 | -.4 | 2.2 | -11.8 |
| Furniture & appliance | 1.4 | 1.4 | 1.3 | 1.4 | -1.3 | .3 | -3.6 | 1.4 |
| Nondurable | 21.2 | 21.3 | 21.3 | 21.5 | .6 | .2 | -.1 | 1.0 |
| Food | 6.8 | 6.8 | 6.8 | 6.8 | -1.0 | .9 | .4 | 0 |
| General merchandise | 5.2 | 5.2 | 5.2 | 5.3 | 2.7 | -1.1 | 1.0 | 1.9 |

Inventories. The book value of business inventories increased in September at close to the August rate. The auto strike slowed inventory growth at both durable manufacturers and automotive retailers, with the rate of accumulation at these two groups combined falling from a \$7.7 billion annual rate in August to \$0.6 billion in September. But this sharp slowdown was almost entirely offset by increases at wholesale trade and nonautomotive retailers.

For the quarter as a whole, the rate of book value increase is double the second-quarter rate, and the \$3.5 billion preliminary third quarter GNP rate of nonfarm inventory accumulation has been revised upward to a \$5.0 billion rate.

CHANGE IN BOOK VALUE OF BUSINESS INVENTORIES
(Seasonally adjusted annual rates, billions of dollars)

| | 1970 | | | |
|------------------------------|------|---------------|--------|--------------------|
| | QII | QIII Prel. | August | September Prel. |
| Manufacturing & trade, total | 4.9 | 10.4 | 8.7 | 7.4 |
| Manufacturing, total | 2.9 | 3.6 | 2.7 | 1.4 |
| Durable | .5 | 3.5 | 2.5 | .2 |
| Nondurable | 2.4 | .1 | .2 | 1.6 |
| Trade, total | 2.0 | 6.8 | 6.0 | 6.0 |
| Wholesale | 1.2 | 2.2 | .2 | 3.1 |
| Retail | .8 | 4.7 | 5.9 | 2.9 |
| Durable | .3 | 2.9 | 4.6 | 1.8 |
| Automotive | 1.0 | 2.8 | 5.2 | .8 |
| Nonautomotive | -.7 | .1 | -.7 | 1.0 |
| Nondurable | .5 | 1.8 | 1.3 | 1.0 |

NOTE: Detail may not add to totals because of rounding.

The September increases in trade inventories outpaced sales, and except at auto dealers, trade stock-sales ratios rose. The inventory-sales ratio for total wholesale and retail trade, which in past recessions or slowdowns has peaked and turned down about three months before the upturn in the economy, rose in September back to its December 1969 peak.

INVENTORY RATIOS

| | 1969 | | 1970 | |
|--|--------|-----------|--------|-----------|
| | August | September | August | September |
| Inventories to sales: | | | | |
| Manufacturing & trade, total | 1.53 | 1.53 | 1.57 | 1.58 |
| Manufacturing, total | 1.67 | 1.66 | 1.74 | 1.76 |
| Durable | 1.95 | 1.95 | 2.09 | 2.13 |
| Nondurable | 1.31 | 1.30 | 1.31 | 1.31 |
| Trade, total | 1.36 | 1.37 | 1.38 | 1.39 |
| Wholesale | 1.18 | 1.17 | 1.23 | 1.24 |
| Retail | 1.48 | 1.50 | 1.48 | 1.48 |
| Durable | 2.12 | 2.09 | 2.12 | 2.12 |
| Automotive | 1.70 | 1.67 | 1.82 | 1.79 |
| Nonautomotive | 2.72 | 2.73 | 2.53 | 2.60 |
| Nondurable | 1.20 | 1.22 | 1.19 | 1.20 |
| Inventories to unfilled orders: | | | | |
| Durable manufacturing | .711 | .715 | .810 | .821 |

Dealers' stocks of new autos were cut sharply in October. The new car stock-sales ratio dropped somewhat but remains quite high.

The retail inventory book value data have been revised back to 1961. Seasonal factors and some allocation procedures have been revised, but the most significant changes result from adjustment to levels established by the Census 1968 and 1969 Annual Retail Trade Surveys. According to OBE, "The revised estimate of total retail inventories of the end of 1969 is 2-1/2 per cent lower than that previously published, lowering the stock/sales ratio for December 1969 from 1.56 to 1.52. The revised inventory data were incorporated in the national income and product accounts in the regular annual revisions, published in the July 1970 Survey." The downward effect of these

revisions on total inventory change was apparently offset by upward revisions in other sectors, and the overall revisions in nonfarm inventory change for 1968 and 1969 were slightly upward.

The downward revision of inventory-sales ratios was widespread, occurring at GAAF stores and at each category shown in the above table. The effect of the revision on the cyclically significant total retail and wholesale trade ratio is to remove most of a buildup and decline from September 1968 through May 1969, and to moderate somewhat the subsequent buildup which peaked in December 1969.

General Motors Contract. The agreement on a new national contract at General Motors awaits ratification by the UAW locals and is expected by November 21. Resumption of full production is anticipated by early December, but may depend in part on prior settlement at plants which have not yet signed local contracts.

The proposed three-year contract provides for an immediate 51-cent an hour wage increase, with 26 cents of the boost a "catch-up" for past consumer price increases. In 1967, the union had accepted a limit on the cost-of-living adjustment with the explicit understanding that any adjustments foregone during the contract period would be made available in the 1970 contract. The immediate wage increase, including catch-up (based on \$4.05 average wage rate) is about 13 per cent. Productivity wage increases provided in the second and third year are 3 per cent. In addition, limitations on the cost-of-living adjustment provided in the 1967 contract were removed, permitting hourly pay to move with increases in consumer prices in the second and third year of the contract.

Full details on fringe benefits are not yet available but a modified version of the union demand for retirement after 30 years is provided: workers with 30 years of service may retire at age 58 with a \$500 a month pension at the end of the first contract year; the age requirement will drop to 56 by October 1972. Under the 1967 contract, workers could retire at 60 years of age with a \$400 a month pension. Pensions for those already retired are also increased. Provision also is made for higher payments to the Supplementary Unemployment Plan, for an extra holiday at Christmas time effective in 1971 and 1972, and a fourth week of vacation after 20 years of service.

The Domestic Financial Situation

Monetary aggregates. Estimates of the changes recorded in monetary aggregates in October have been revised slightly from those presented in the Greenbook. The money supply is now estimated to have declined at a seasonally adjusted annual rate of -0.6 per cent (rather than -1.0 per cent). The seasonally adjusted annual rates of advance in commercial bank time and savings deposits and in member bank deposits plus nondeposit sources are now estimated to have been, respectively, 22.1 per cent (rather than 22.0 per cent) and 0.7 per cent (rather than 0.5 per cent).

Discount and prime rates. Despite some disappointment by money market participants that Tuesday's discount rate cut was not larger, market reaction was generally tranquil. Following some weakness Thursday morning (the Treasury market was closed on Wednesday),

Government securities generally closed Thursday evening at yields essentially unchanged from their Tuesday levels. Corporate and municipal bond markets were also firm following the discount rate announcement. On Thursday, several major banks lowered their prime rates one-fourth of a percentage point to 7-1/4 per cent.

There were market rumors late in the week that an additional small decline in the discount and prime rates may develop by year-end or in early 1971.

Mortgage market. With savings inflows to the nonbank thrift institutions remaining strong in October, further easing in the residential mortgage market was reflected in an additional slight decline in average yields on FHA-insured home mortgages traded in the secondary market. This brought the national level of average yields in this sensitive market sector 32 basis points below the high posted early this year.

In the primary market for home mortgages, average contract interest rates on conventional loans, which had edged down in September for the first time in almost two years, remained unchanged in October for the nation as a whole. However, average rates continued downward in several regions. In two capital-deficit regions lacking restrictive usury ceilings--the Southwest and the West--the October averages were down to levels that were 25 and 50 basis points, respectively, below peaks reached earlier this year.

AVERAGE RATES AND YIELDS ON NEW HOME MORTGAGES
(Per cent)

| | Conventional | FHA-insured |
|-------------------|-------------------|--------------|
| <u>1969</u> | | |
| Low | 7.55 (Jan.) | 7.85e (Jan.) |
| <u>1970</u> | | |
| High | 8.60 (July, Aug.) | 9.29 (Feb.) |
| August | 8.60 | 9.07 |
| September | 8.50 | 9.01 |
| October <u>1/</u> | 8.50 | 8.97 |

Note: FHA data; interest rates on conventional first mortgage
(excluding additional fees and charges) are rounded to the nearest
5 basis points.

e/ Estimated.

1/ Data for October are STRICTLY CONFIDENTIAL until released.

INTEREST RATES

| | 1970 | | | |
|------------------------------------|-------------|--------------|--------------|-------------|
| | Highs | Lows | Oct. 19 | Nov. 12 |
| <u>Short-Term Rates</u> | | | | |
| Federal funds (weekly averages) | 9.39 (2/18) | 5.80 (11/11) | 6.21 (10/14) | 5.80 (11/1) |
| 3-months | | | | |
| Treasury bills (bid) | 7.93 (1/6) | 5.48 (11/10) | 5.94 | 5.49 |
| Bankers' acceptances | 8.75 (1/13) | 6.12 (11/12) | 6.38 | 6.12 |
| Euro-dollars | 10.50 (1/9) | 7.31 (11/12) | 8.04 | 7.49 |
| Federal agencies | 8.30 (1/9) | 5.78 (11/12) | 6.24 (10/16) | 5.78 |
| Finance paper | 8.25 (2/1) | 6.25 (11/12) | 6.75 | 6.25 |
| CD's (prime NYC) | | | | |
| Most often quoted new issue | 6.75 | 6.00 (1/16) | 6.75 | 6.12 |
| Secondary market | 9.25 (1/23) | 6.35 (11/12) | 6.75 | 6.35 |
| 6-month | | | | |
| Treasury bills (bid) | 7.99 (1/5) | 5.66 (11/10) | 6.15 | 5.68 |
| Bankers' acceptances | 8.88 (1/13) | 6.25 (11/12) | 6.50 | 6.25 (e) |
| Commercial paper (4-6 months) | 9.13 (1/8) | 6.62 (11/12) | 6.88 | 6.62 |
| Federal agencies | 8.50 (1/28) | 6.01 (11/12) | 6.60 (10/16) | 6.01 |
| CD's (prime NYC) | | | | |
| Most often quoted new issue | 7.00 (10/7) | 6.25 (11/12) | 6.75 | 6.25 |
| Secondary market | 9.38 (1/23) | 6.50 (11/12) | 6.95 | 6.50 |
| 1-year | | | | |
| Treasury bills (bid) | 7.62 (1/30) | 5.72 (11/10) | 6.22 | 5.84 |
| CD's (prime NYC) | | | | |
| Most often quoted new issue | 7.50 (9/16) | 6.25 (1/16) | 7.00 | 6.38 |
| Prime municipals | 5.60 (1/9) | 3.10 (11/12) | 3.75 (10/16) | 3.10 |
| <u>Intermediate and Long-Term</u> | | | | |
| Treasury coupon issues | | | | |
| 5-years | 8.30 (1/7) | 6.74 (11/9) | 7.16 | 6.75 |
| 20-years | 7.73 (5/26) | 6.55 (2/27) | 6.90 | 6.63 |
| Corporate | | | | |
| Seasoned Aaa | 8.60 (6/24) | 7.78 (3/10) | 8.02 | 8.06 |
| Baa | 9.47 (3/28) | 8.57 (3/10) | 9.28 | 9.43 |
| New Issue Aaa | 9.30 (6/19) | 8.20 (2/27) | 8.53 (10/14) | 8.40 |
| Municipal | | | | |
| Bond Buyer Index | 7.12 (5/28) | 5.95 (3/12) | 6.35 (10/14) | 6.12 |
| Moody's Aaa | 6.95 (6/18) | 5.75 (3/12) | 6.10 (10/16) | 5.95 |
| Mortgage--implicit yield | | | | |
| in FNMA biweekly auction <u>1/</u> | 9.36 (1/2) | 8.90 (10/19) | 8.90 | 8.93 (11/2) |

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years. e--estimated.

International Developments

The Bank of Canada reduced its discount rate effective November 12 from 6.5 per cent to 6.0 per cent. This was the fourth half-point reduction since mid-May, and according to the Bank's press statement was another step in the adaptation of monetary policy "in the light of the growing amount of slack in the economy." Probably another reason was a desire not to attract short-term funds to Canada, in view of the strength of the Canadian balance of payments this year.

Corrections:

The Corporate Security Offerings table in the Greenbook, page III-13, contained an error for the year 1970, Quarter IV 1970, and December 1970 figures. Substitute the following table which gives the correct data.

CORPORATE SECURITY OFFERINGS
(Monthly or monthly averages in millions of dollars)

| | Bonds | | Stocks | Total |
|--------------------|---------------------|--------------------|--------------------|---------------------|
| | Public Offerings | Private Placements | | |
| 1969 - entire year | 1,061 | 468 | 700 | 2,229 |
| 1970 - entire year | 2,029 ^e | 423 ^e | 692 ^e | 3,145 ^e |
| 1970 - QI | 1,525 ^{1/} | 420 | 712 | 2,659 ^{1/} |
| QII | 2,331 ^{1/} | 427 | 730 | 3,489 ^{1/} |
| QIII | 1,994 ^e | 379 ^e | 560 ^e | 2,933 ^e |
| QIV | 2,267 ^e | 467 ^e | 767 ^e | 3,500 ^e |
| October | 2,400 ^e | 400 ^e | 1,000 ^e | 3,800 |
| November | 2,700 ^e | 300 ^e | 800 ^e | 3,800 ^e |
| December | 1,700 ^e | 700 ^e | 500 ^e | 2,900 ^e |

^{e/} Estimated.

^{1/} The second quarter "Public Offerings" and "Total" figures reflect the \$1,569 billion AT&T offering. The monthly averages for the second quarter, excluding AT&T, would be \$1,808 for "Public Bond Offering" and \$2,966 for "Total Offerings."

Section III, page 2. Data in the second column of the Monetary Aggregates Table, which indicate rates of growth for the third quarter of 1970, should read: Money Supply, 5.1 per cent (rather than 4.5 per cent); Commercial Bank Time and Savings Deposits, 31.8 per cent (rather than 31.6 per cent); and Member Bank Deposits Plus Nondeposit Sources, 17.2 per cent (rather than 16.8 per cent).

Section IV, page 10. The second sentence in the third paragraph should have read "call deposits averaged 6.38 per cent in November 5-10, down nearly 1-1/2 percentage points from early October..."

The reference to the excess of the call Euro-dollar rate over the Federal funds rate on November 10 (p. IV-11) was based on preliminary data. The effective Federal funds rate for November 10 was 5-1/2 per cent, or one per cent less than the call Euro-dollar rate on that date.